

# IFRS 2 – Share- based Payments Options



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## **Training objectives**

The objectives of this training are in-depth study of structuring the transactions involving employee considerations, such as share-based payment arrangements (in general, these are the Employee Stock Option Plans (ESOP)), these transactions recognition in the issuing companies' accounting and their impact on the companies' financial performance.

## **Training specific targets**

It is intended to:

- Consider the concept and IFRS-based approaches to recognition of the share-based payment arrangements;
- Learn to identify the transactions involving share-based payments that are within the scope of IFRS 2 and the transactions that are outside the scope of the Standard;
- Learn to classify the vesting conditions for the share-based payment arrangements;
- Learn to perform cost estimating under the share-based payment arrangements to be recognized over the vesting period;
- Study out the basis of the shares-based payment arrangements' measurement;
- Learn the accounting requirements for the share-based payments depending on how the transaction will be settled, that is, by the issuance of (a) equity, (b) cash, or (c) equity or cash option right;
- Perform the case studies involving different variants of structuring of the share-based payment arrangements;
- Learn to consider the changes in vesting conditions and cancellations for the share-based payments by employees;
- Review the latest modifications and amendments to the treatment of transactions involving share-based payments made to IFRIC 11 and IFRS 2 in January 2008;
- Review the differences between IFRS 2 and SFAS 123 (R) [GAAP USA] with regard to treatment of transactions involving share-based payments.

## **Training audience**

Training has been developed for the top-management of companies employing the share-based payment arrangements for their employees, or planning to introduce such awarding programs. The training will also be useful for financial executives as well as for executives who are responsible for structuring of arrangements involving share-based payment.

## **Trainees acquired skills and abilities**

Trainees will be able to:

- Make decisions on the share-based payment arrangements disposing of full line of such arrangements;
- Understand the effects of share-based payment arrangements on the company's financial performance and its capital structure depending on their conditions;
- Understand the effects of vesting conditions change, cancellations or forfeiture of a right with regard to share-based payments;
- Perform cost estimating of the share-based payments or other similar arrangements (however, functional calculation of options value is not the issue of this training).

## Contents of Training

### Day 1: 09:30 – 18:00

#### **1. Concept and approaches to recognition of share-based payments**

##### ***History of IFRS 2: Share-based Payment***

##### ***Scope of IFRS 2 and types of share-based payment arrangements***

- Three general types of share-based payment arrangements;
- Group share-based payment arrangements;
- Difference between IAS 32 and IFRS 2;
- Arrangements involving equity instruments where an entity makes share-based payments for apparently less consideration (or unidentifiable consideration) than the value of the equity instruments granted (IFRIC 8: Scope of IFRS 2);
- Arrangements outside the scope of IFRS 2;
- Case studies for different transactions that are within or outside the scope of IFRS 2.

Expected time – 2,5 hours

#### **2. Recognition and measurement of share-based payments**

##### ***General principles of the share-based payment recognition***

##### ***Basis and date of the share-based payment measurement***

- Arrangements with the counterparties who are not the employees;
- Arrangements with the employees.

##### ***Important dates in recognition of the share-based payment arrangements***

- Grant date;
- Vesting date;
- Vesting period;
- Case studies for identifying the dates of vesting.

##### ***Vesting conditions***

- Service conditions;
- Performance conditions:
  1. non-market conditions;
  2. market conditions.
- Case studies for vesting conditions classification.

Expected time – 2,5 hours

#### **3. Treatment of different types of share-based payment arrangements**

##### ***Valuation key date, adjustments and allocation of share-based payment costs***

- General principle.

##### ***Particular types of arrangements requiring different cost keeping***

(Each type of arrangement is followed by a case study)

### ***Equity-settled share-based payment arrangements***

- Service conditions;
- Non-market vesting conditions:
  1. non-market conditions and varied vesting period;
  2. non-market conditions and varied settlement price;
  3. non-market conditions and varied number of granted stock;
  4. vesting by installments (serial vesting).

Expected time – 2 hours

## **Day 2: 09:30 – 18:00**

### **4. Treatment of different types of share-based payment arrangements (Continued)**

#### ***Particular types of arrangements requiring different cost keeping***

(Each type of arrangement is followed by a case study) *(Continued)*

#### ***Equity-settled share-based payment arrangements (Continued)***

- Market-related vesting conditions:
  1. market conditions and fixed vesting period;
  2. market conditions and varied vesting period;
  3. independent market and non-market vesting conditions;
  4. coherent market and non-market vesting conditions.
- Renewal options.

#### ***Treatment of cash-settled share-based payments***

- Liability periodic revaluation;
- Vesting conditions.

#### ***Treatment of arrangements with the option of settlement***

- Option by a counterparty:
  1. Treatment of arrangement as a compound one;
  2. Example of a liability and a capital component calculation;
  3. Cash settlement option offered not at a time but over the vesting period.
- Option by an entity:
  1. Consolidated-method treatment of the entire arrangement;
  2. Treatment conditions for the cash-settled share-based payment.

#### ***Treatment after vesting***

#### ***Treatment of changes in vesting share-based payments***

- Changes increasing the value of share-based payment;
- Changes reducing the value of share-based payment.

#### ***Treatment of share-based payment cancellation in the vesting period***

- Difference between cancellation and forfeiture of a right for a share-based payment;
- Repayment of share-based arrangements prior to vesting period expiration.

Expected time – 3 hours

## 5. *Measuring of share options fair value*

### *General approach of IFRS 2 to measurement of share-based payment arrangements*

- Intrinsic value and time value;
- Models of measurement – short summary:
  1. Black-Scholes-Merton formula;
  2. Binominal model;
  3. Monte-Carlo model.

### *Initial data for options measurement models*

- Option strike price;
- Option implicit period of validity and the employee behavior model;
- Company's stock current market price;
- Implicit volatility of the stock price;
- Implicit stock dividends;
- Risk-free interest rate for the option period of validity.

### *Share-based payments for which the fair value cannot be reliably measured*

Expected time – 2 hours

## 6. *Individual complex issues of share-based payments measurement and recognition*

### *Substituting options at business combinations*

- Substitution of the Employee Stock Option Plan at the acquired subsidiary by the option plan of the parent company.

### *IFRIC 11: IFRS 2 – Groups and Transactions with Treasury Stock*

- Treatment of option programs for which an entity should repurchase its stock from the third party for granting to employees;
- Option programs involving stock of the parent company granted to the subsidiaries' employees.

### *Share-based payment arrangements involving issuance of new equity (vesting conditions correlated with IPO – initial public offering)*

- Identifying of vesting period;
- Market and non-market conditions in those arrangements.

### *Deferred tax relative to share-based payment arrangements*

- Temporary or permanent difference;
- Example of recognition and repayment of deferred tax asset under the option program.

Expected time – 2 hours